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**SEGMENTING SUPPORT
FOR SMALL AND MEDIUM ENTERPRISES**

Identifying and disseminating best practice

RESEARCH SUMMARY

September, 2001

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PROJECT OVERVIEW AND SUMMARY OF FINDINGS

Project Scope and Remit

Segmentation can be defined as the identification of target groups of customers that share activities, attributes, behaviours, conditions or needs. This report examines the nature of segmentation with particular reference to business development services and the Business Link network. The study was commissioned by the Small Business Service's Research and Evaluation Team, as a project within its research and dissemination project series.

In order to build a baseline view of current segmentation practice, the study addressed several key questions:

- What segmentation strategies are being used for the provision of services to SMEs by Business Links and related organisations?
- What alternative approaches can be identified from the academic and practitioner literatures that may be of relevance?
- How can segmentation frameworks and strategies be developed and applied?
- What are the implications for the Small Business Service and Business Links?

Methodology

The methodology adopted for the study consisted of a three step process:

- i. Review of current practice in and thinking on segmentation. The review was based on analysis of documentation from five different Business Link business plans, the Small Business Service website, and practitioner literature from government departments and national and regional organisations. It also consisted of a five-year review of the key small business and enterprise journals for the years 1996-2001. Key outputs were an analysis and classification of all identified segmentation frameworks and market segments.
- ii. Testing of segmentation strategy development with Business Link Tyne and Wear. Via consultation and analysis of available documentation, a case study was undertaken to assess the requirements and challenges of developing a segmentation strategy.

- iii. Feedback and review of results. The findings from the study were fed back to key stakeholders via: a consultation meeting with Small Business Service staff, including regional directors; feedback and review with Business Link Tyne and Wear staff; circulation of final report to study participants and stakeholders.

Mapping segmentation strategies

The review of practitioner and academic documentation identified four broad categories of segmentation frameworks. These group segmentation frameworks according to:

- The personal characteristics of the individual involved or being targeted
- The characteristics of the business
- The activities and processes undertaken within and by the business
- The specific needs of the business.

Segmentation according to personal characteristics

Personal characteristics used for segmentation tended to focus on the owner-manager or entrepreneur, or on a profile for a beneficiary or customer. Many of these segmentation approaches can be considered to be ‘demographic’, in that they reflect particular features within the wider population, such as age, gender and education. As such, the characteristics reflect wider groups within society and so can extend beyond notions of business and enterprise development. Some of the segmentation approaches reflected the individual characteristics of the individual within the small and medium business, rather than wider demographic groups. These tended to focus on attitude and experience. The segmentation approaches based on personal characteristics are as follows:

- Experience of the founder
- The personality of the individual entrepreneur
- The motivation to start a business.
- The type of entrepreneurial activity undertaken: portfolio or parallel, serial, single venture-focused
- Education and skill level
- Ethnicity
- Gender
- Age
- Disability

- Unemployment

Segmentation according to business characteristics

The second category of segmentation approaches refers specifically to the business and its dominant characteristics and properties. The review of available documentation and literature and via consultation and discussion identified several of these segmentation approaches that were widely used. Commonly adopted approaches included size, stage of development, and sector. Overall, the following approaches were identified:

- Size
- Stage of development or lifecycle.
- Type of entrepreneurial business activity: lifestyle, survivalist, limited growth, high potential
- Performance
- Economic sector
- Non-economic sector: co-operatives, social enterprises, community enterprises, public enterprises
- Origin: indigenous, foreign, incoming
- Industry sector
- Age of business
- Location
- Industry environment and dynamics
- Formal or informal businesses

Segmentation according to business activities and processes

The third general category included approaches and frameworks that directly referred to activities and processes undertaken by the business. The approaches identified in the study indicate a strong focus on market development, technology and innovation, as well as on strategy and strategic awareness. There is some recognition of a functional approach to small business activities, i.e. segmentation of needs and responses according to a particular business function such as marketing. There is also some indication of the development of segmentation approaches based on business process frameworks, which map out different areas of business activity. The segmentation approaches identified that relate to activities and processes are:

- Market development including international market development and internationalisation
- Business function including human resource management; quality management; information technology; marketing; research and development; and strategy
- Technology and innovation
- Take-up of support
- Type of support used
- Patterns of use
- Provider perspective
- Nature of support offered
- Forms of business-to-business collaboration
- Business processes
- Business performance stance or strategy

Segmentation according to needs

The fourth aspect of segmentation that was identified from the consultations and review of various documents and literature sources was business need. References to segmentation frameworks and approaches based on need were not extensive, and when cited tended to recognise the importance of focusing on business needs as a principle of business support, rather than identifying specific segments. In all, two general segmentation approaches were identified:

- By type of resource, or ‘capital’, needed: human, social, organisational, physical, or financial.
- Based on a specific incident or experience, focusing on: a specific problem, a particular crisis, or an identifiable opportunity.

‘Bundling’ segmentation strategies and approaches

The mapping of segmentation strategies and approaches identified a broad range of identifiable market segments and frameworks. In most cases, multiple segmentation approaches were combined to develop a ‘bundled’ approach. Typically, between two and four segmentation framework criteria were used to develop a segmentation strategy. There were indications that segmentation based on a single criterion was seen by many practitioners as not being sufficiently representative of a diverse and heterogeneous customer group.

Conversely, segmentation using more than four different criteria was considered in many cases to be overly complex and, as a result, difficult to implement.

Table 1: Commonly Used ‘Bundles’ of Segmentation Strategies

<i>Personal Characteristics</i>	<i>Business Characteristics</i>	<i>Business Activities/Processes</i>
Founder’s experience Motivation to start	Pre-start Nascent Start-up New firm	Technology
	Growth	Technology and innovation Form of collaboration
Ethnicity Gender Age Disability Unemployed	Pre-start Start-up Self-employed Socio-economic sector	Location
Portfolio Serial	Start-up Growth	
	Origin Start-up Growth	
Personality		Take-up of support
	Entrepreneurial type Stage of development Industry classification	Performance

Overall, three general approaches to segmentation were identified:

- i. The use of segmentation frameworks to identify select and prioritise specific market segments
- ii. The development of a ‘menu’ of segmentation options that could be applied both to identify market limits and to support initial diagnosis activity
- iii. The application of a comprehensive market segmentation framework, based on a consideration of all potential businesses.

Managing the Process of Segmenting the Market

Via consultation with Business Link Tyne and Wear staff and reference to of other business development organisations, a six stage model has been identified that offers an indication of how a segmentation strategy can be developed and applied. The six stages are:

1. Understanding the business base and its varied needs
2. Identifying and selecting segmentation models
3. Prioritising segmentation models and focusing upon key segments
4. Creating segment development strategies
5. Delivering targeted services and support to segments
6. Capturing and using the data, knowledge and learning.

The principle underpinning this process is that the development of Business Link services is explicitly and directly based on following and responding to customer and needs. The implication of a full implementation of such a segmentation process is that the offer of services is justified on the tangible needs of customer groupings.

The case of Business Link Tyne and Wear provided an opportunity to consider the segmentation strategy developed by a Business Link franchise within the context of a local economy and the wider policy framework established by the Small Business Service. A key conclusion is that the identification of target segments can provide a focus for Business Link activities and services, which in turn influences and guides the market positioning of the organisation. This, in turn, will determine Business Link services and so can have a major impact on take-up of these services. Segmentation, in other words, can define a market position not only for a Business Link, but also for its past, existing and future clients.

In Tyne and Wear, in general terms, there is significant overlap between the ‘demand-side’ segments of business issues, identified SBS policy priorities and the market positioning response by Business Link Tyne and Wear, as outlined in the franchise bid and business plan. The Business Link Tyne and Wear appears in broad terms to both reflect the nature of the local business population and the priorities identified by the Small Business Service.

The close match overall between local business needs, national SBS guidelines and local Business Link positioning, suggests that the frameworks can incorporate ‘bottom-up’ considerations of need in combination with ‘top-down’ policy priorities. However, there also appears to be a need for a ‘localisation’ strategy for ‘top-down’ priorities that aims to match policy considerations with the local context. In certain cases, this may be a validation of strategies for integrating ‘demand-side’ and policy priority considerations into the

development of local Business Link franchises. In other cases, it can indicate that certain policy considerations are of particular importance or have little relevance.

Is segmentation a viable approach for Business Link and the Small Business Service?

The study indicated that all of the Business Link cases reviewed explicitly adopted some form of segmentation strategy. Given that there is explicit reference to the need to develop innovative approaches to segmentation, it would be expected that franchise proposals and initial business plans would refer to segmentation strategies and approaches. In addition, the case of Business Link Tyne and Wear indicated that the adoption of a segmented approach to market positioning and development was considered both a feasible and necessary strategy, given the nature of the SME market and the resource base of the franchise.

The emergent issue, however, appears to be the extent to which segmentation strategies can enable and assist Business Links to enhance their reputation with and impact on small business customers. The challenges related to developing ‘market’-driven approaches to segmentation are three-fold:

- i. How can Business Links design and develop segmentation strategies that are demonstrably appropriate and beneficial to their customers?
- ii. What is required to ensure that segmentation strategies are implemented effectively?
- iii. How can this approach work within or incorporate policy considerations and priorities?

Critical Future Issues

Although segmentation is referred to extensively within the literature and the Small Business Service/Business Link network, there is only partial indication of the implications of its application in terms of Business Link performance and impact. The future challenge, in other words, appears to relate to how segmentation is not just seen but also practised within the Business Link network, and how segmentation strategies are developed and applied by Business Link franchises. From this perspective, the principal question to address could be phrased as follows:

‘Is it really about whether or not to develop and apply a segmentation strategy? Or, is it about how such a strategy is developed and applied?’

In order to establish actual practice and effective segmentation strategies, several issues and points need to be addressed:

- What is actual practice in the implementation as well as formulation, of segmentation strategies by Business Links and within the wider network of business development services providers?
- What works and what does not – and why?
- To what extent would practices outside these networks, such as those in parts of the private sector, inform Business Link activities and practices?
- How can segmentation practices – and the learning and insight they generate - be evaluated, monitored and disseminated?
- Are there opportunities and/or needs to encourage and enable experience exchange opportunities and mechanisms?
- Can segmentation strategies be monitored and evaluated in terms of their impacts and benefits for business clients and for the development of Business Links and their local ‘markets’?
- How can ‘bottom-up’ business-focused and ‘top-down’ policy-driven factors be integrated and accounted for in Business Link segmentation strategies?

Diagram 1: Map of Segmentation Frameworks and Options Identified from the Practitioner and Academic



